

## **ALABAMA PACT**

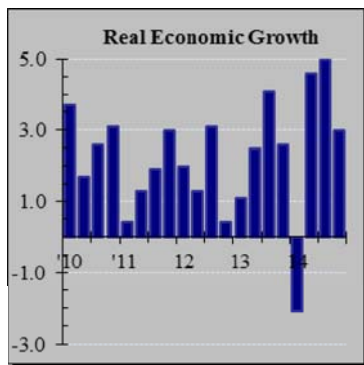
### **PERFORMANCE REVIEW DECEMBER 2014**



## ECONOMIC ENVIRONMENT

### *Looking Pretty Good*

The second half of 2014 was a very bright period for the U.S. economy after a long sluggish recovery. That growth came in spite of several major issues, including economic malaise in both Europe and Japan, the horrific Ebola crisis and Russian intransigence. Rapidly falling oil and gas prices put extra cash into the hands of consumers and made for a better Christmas. The effect of the drop in gasoline prices equated to better than a \$1,200 tax cut for the average American family and was the strongest stimulus since 2009.



Despite these issues (and in part because of them), the US economy expanded at its fastest rate since 1999. Q3 GDP growth (latest available) grew at a 5% annual rate and Q4 was estimated to be over 3%. Growth was attributable to substantial job gains, growth in the manufacturing and service sectors, higher consumer confidence, and steady and reassuring Fed announcements. More details follow:

- Real GDP growth in Q3 (latest data available) increased at a 5% annual rate – higher still than the prior quarter. A key driver was increased federal spending, particularly for defense. Personal consumption expenditures (PCE) also grew. Imports were down while exports were up, further spurring growth.
- December payrolls rose by 252,000, as the unemployment rate fell to 5.6%. Just a year earlier, unemployment was at 6.7%; in fairness, part of the drop reflected those workers who stopped looking for work. For the full year, average job growth was 246,000 per month vs. 194,000 a year earlier. The only, yet important, downside was the data related to hourly wage rates. Wages have risen just 1.7% for the year, while economists had been hoping for a much stronger uptick. Without wage gains, personal consumption and consumer confidence are constrained.
- Housing consultant CoreLogic reported that home prices gained 5.5% for the fiscal year ended November (latest data available).

The five states with the highest year-over-year gains were Michigan (9.0%); Colorado (8.8%); Texas (8.5%); Nevada (7.9%); and North Dakota (7.9%). Nationally, however, prices remain roughly 13% below their April 2006 peak.

- The Institute of Supply Management (ISM) reported continuing advances in both the manufacturing and service sectors of the economy. December marked the 19<sup>th</sup> consecutive month for manufacturing growth. The ISM Manufacturing Index registered 55.5% (greater than 50% represents expansion). Eleven manufacturing industries showed positive growth vs. seven that were contracting. The ISM Non-manufacturing Index (service index) recorded a 56.2% level – up for the 59<sup>th</sup> consecutive month. Twelve service industries experienced positive activity vs. five that contracted.
- Consumer confidence grew modestly from November to December. The Consumer Confidence Index stands at 92.6. This was the highest reading in years, reflecting the consumer's favorable assessment of current economic and labor market conditions. As a result, the so-called Present Situation Index hit 98.6, its highest level since February 2008. Still, consumers remained cautious. For example, 27.7% of those surveyed still thought jobs were hard to find. Importantly, CEO confidence improved a bit in the 4<sup>th</sup> quarter.
- CPI inflation remained low. Abundant agricultural and energy supplies helped to dampen retail prices. In addition, very small increases in real wages curtailed consumer demand. The December CPI actually dipped slightly (-0.6). For the year as a whole, consumer prices only rose 0.8%.
- Certain industrial metals including nickel, zinc, and aluminum were the only commodities in the S&P/Goldman Sachs Commodity Index to advance in 2014 and the combined index slid 33.1% for the year. Most commodities fell dramatically. The steepest declines were in the energy sector, which fell an amazing 43%!
- The Fed made good on its promise to end its bond purchasing program (QE3), designed to help boost lending activity and thereby strengthen the economy.

## DOMESTIC EQUITIES

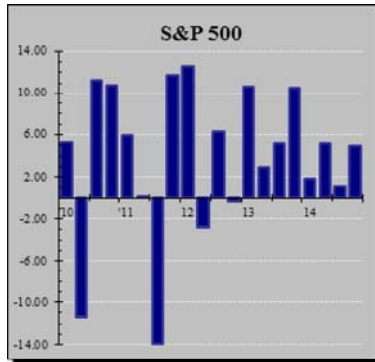
### *Positive Quarter and Double Digit Advances for the Year*

All of the popular market indices advanced in Q4. The bellwether S&P 500 and DJIA climbed 4.9% and 5.2%, respectively. The tech-laden NASDAQ gained a modestly higher 5.7%. Small caps experienced a strong turnaround, as the Russell 2000 Index added 9.7% and its growth stock component pushed slightly above 10%. Unlike earlier quarters, growth and value stocks marched up together, whether they were large-cap, mid-cap or small-cap. The one exception was in the liquid real estate market (REITs). That sector, viewed as part of the small-cap value space, rocketed up 12.9% in line with the economy's increasing strength. The overall domestic market, represented by the Russell 3000 Index, advanced 5.2%.

For the full year, large and mid-cap stocks gained double-digit returns. The Russell 1000 (large caps) and Russell Midcap Indices each added a healthy 13.2%. However, small-cap stocks trailed considerably, with the Russell 2000 Index posting a much lower 4.9%. Again, real estate was the sector that dazzled investors as the NAREIT Index shot up 28%.

S&P sector returns varied widely. At the top was the small-sized transportation sector where companies earned an average of 13.9%, a clear indicator of economic strength. Consumer service also performed well (+11.8%). Autos and other manufacturing helped propel consumer durables up 10.9%. Financials and tech companies (excluding computer technology) each earned more than 8%. Utilities, which were thought to be fully priced, climbed 6.7% more. Consumer non-durables were mixed, but collectively added 5.9%. Finally, it's no surprise that energy stock prices fell dramatically. The sector dropped 9.1%, after an 8.6% third quarter decline, reflecting pummeled oil prices. While investors grieved, consumers celebrated their good fortune as they filled up for the holiday travel season.

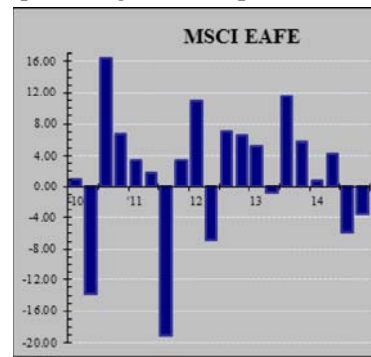
As of year-end, half of the S&P components saw dividend yields of 2% or less and a trailing year price/earnings ratio of 20x or greater. One could argue that the market has become fully priced.



## INTERNATIONAL EQUITIES

### *Currency Weakness Offsets Any Local Gains*

No surprise that the MSCI EAFE Index fell 3.5% during the fourth quarter, given the perfect storm that was brewing abroad. The stew of



bad factors were (1) the EU is mired in stagnant growth; (2) trading sanctions against Russia have exacerbated the falling price of oil; (3) the commodity-based Australian economy continued to lose steam; and (4) Japan's consumers showed a preference for savings over spending. The euro, pound, ruble and yen all lost value vs. the US dollar. Returns to US investors suffered accordingly. The Euro market

fell 5% for the period. Germany, the largest Euro component, eased back just 0.4%. The high-performing Daimler auto shares helped mitigate the loss. French shares fell 5.8%. The declines in the energy giant Total and drug maker Sanofi contributed to the pullback. Financially-strapped Italy dropped 13.4%. Shares in Spain (-8.2%) and Portugal (-23%) also suffered. Ireland was the sole exception, as its shares rose 1.9%. The UK market fell 4.2%, in spite of a slowly improving economy.

Australian shares gave back 3.6%, reflecting falling commodity prices, reduced exports and the currency factor. Japanese companies lost a relatively modest 2.4%. Recognizing the weak yen, Prime Minister Abe's government and central bank have taken aggressive steps to shore up Japan's economy. Toyota, Fuji Heavy Industries and Sony helped that market, while lower Honda earnings nicked the index. Hong Kong bounced back more than 3% as pro-democracy demonstrations ended and the real estate market stabilized. The tiny Israeli market was also in positive territory, increasing 1.4%. On the flip side, Hong Kong gaming companies continued to hurt and Canadian shares (not an EAFE component) shed 4.6%, hit by falling commodity prices, particularly oil.

EAFE performance for the full year was a disappointing -4.5%. Most individual EAFE markets were also in the red. A few exceptions included Ireland (+2.6%), Hong Kong (+5.1%), and Israel (+23.7%). Aside from falling oil prices, the same economic, currency, and geopolitical factors depressed most countries' returns throughout the year.

Emerging markets dropped sharply (-4.4%) last quarter, affected by falling commodity prices, currency weakness and the near collapse of the Russian economy. While China turned in positive results, virtually every other country return was in negative territory.

The BRIC Index, combining the four largest EM countries, fell 4.1%. Brazil lost almost 15%. That country's performance attribution included currency depreciation, weak economic growth, and investor uncertainty regarding the re-election of President Rousseff. Russian equities also plunged (-32.8%). Predictably, President Putin's military adventure in Ukraine and subsequent western sanctions created major unease, but the plummeting oil price and the ruble's freefall snowballed into a grim economic picture for Russia. India took a pause (-0.7%) after two quarters of strong performance. China, the largest component of the EM Index, advanced a surprising 7.2% due to targeted stimulus measures.

Eastern Europe markets (excluding Russia) swooned on fears of Russia's military. The combined loss in these markets was 14%. Poland fell 13.9% and Hungary declined 12.8%. Greece, swamped by a tidal wave of political unrest and austerity, saw its shares plunge almost 29%.

Turkey recovered from an 11.8% decline in Q3 to advance 11.6% in Q4.

Asian markets showed mixed results. The Philippines and Indonesia each advanced 0.7%, while Taiwan was up 1.7%. However, Thailand slid 6.4%; South Korea fell 7.7%; and Malaysia lost 10.5%, owing its downfall to lost confidence in its airline infrastructure and by implication, its government, after its recent spate of plane crashes and inadequate public relations in the aftermath.

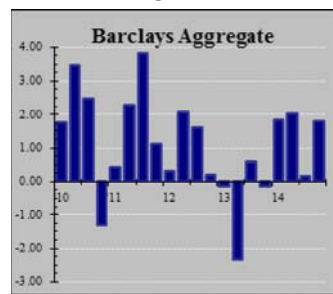
Latin America markets, including Brazil, skidded 13.3%. Mexican shares also fell in the double digits (-12.2%), as the country has had to address peso devaluation, the disappearance of 43 of its college students, falling oil prices, and the struggles of telecom giant America Movil. Progress in disarming the dominant drug cartels proved not enough of an offset.

For the year, EM lost a modest 1.8%. There were several pluses among EM countries. Indonesia surged 27%; Philippines soared 26.4%; and India climbed 23.9%, as all three embraced new leaders who promised economic reforms and growth. Turkey advanced 19%. China, an also-ran by comparison, gained 8.3%. Bringing up the rear with spectacular losses were Russia (-45.9%), Greece (-39.9%) and, to a lesser extent, Brazil (-13.7%). Each had its own problems; but, among the common threads were oil's price drop and weak or dysfunctional governments.

## BOND MARKET

### *Investors Sought Safety in US Treasuries*

Investment grade bonds reversed course from the lackluster 3<sup>rd</sup> quarter.



Still, the fourth quarter turnaround was generally less dramatic than that of the stock market. The Barclays Aggregate Index advanced 1.8%. Treasuries, corporate debt, and mortgage-backed debt performed in line with the aggregate. Asset-backed securities (ABS) were up a fractional 0.6%, while commercial mortgage debt (CMBS) posted +1.3%.

The long maturity Treasury sector was the clear winner as Treasuries with maturities of 20-years and longer turned in an astounding 9.4%.

The Aggregate Index was well into positive territory for the full year, returning 6.0%. This performance beat both 2012 returns (+4.2%) and those of 2013 (-2.0%).

High yield/junk bonds disappointed investors again, as the Barclays High Yield Corporate Index was down 1% for the quarter. Those investors who took on more credit risk by buying lower credit ratings suffered more. BA-rated names, the highest grade of junk bonds, were the best performers, gaining 0.9%, while the lowest-rated CAA-D issues plunged almost 24%. Energy companies that had issued junk bonds were an important part of this market. These energy issues fell a whopping 10.6% due to falling oil prices, thereby hammering the entire junk bond market! For the year, the return for the High Yield Index was a modestly positive 2.5%.

Combined, the G-6 (G-7 x-US) Global Treasuries lost 3.3%. Canada, France, Germany, and Italy sovereign returns were closely packed, all falling between 1% and 2%. Japan's government debt fell more (-6.4%). The UK was the only country to gain ground (+2.6%). Full year return for the G-6 index was -3.5%.

## CASH EQUIVALENTS

### *Zero Return Still Applies*

The Federal Reserve Board's most recent announcement indicates that short-term interest rates will remain in the zero-to-0.25% range.

## MARKET SUMMARY

## ECONOMIC STATISTICS

|                         | CURRENT QTR | LAST QTR |
|-------------------------|-------------|----------|
| GDP                     | 3.0         | 5.0      |
| Unemployment            | 5.6         | 5.9      |
| CPI All Items Year/Year | 0.80        | 1.70     |
| Fed Funds Rate          | 0.25        | 0.25     |
| Industrial Capacity     | 79.7        | 79.5     |
| US Dollars per Euro     | 1.21        | 1.26     |

## MAJOR INDEX QUARTER RETURNS

| INDEX         |      | PERFORMANCE |
|---------------|------|-------------|
| Russell 3000  | 5.2  |             |
| S&P 500       | 4.9  |             |
| Russell Mid   | 5.9  |             |
| Russell 2000  | 9.7  |             |
| MSCI EAFE     | -3.5 |             |
| MSCI Emg Mkts | -4.4 |             |
| NCREIF ODCE   | 0.0  |             |
| Barclays Agg  | 1.8  |             |
| 90 Day Tbills | 0.0  |             |

## EQUITY RETURN DISTRIBUTIONS

| QUARTER |     |     |      | TRAILING YEAR |      |      |      |
|---------|-----|-----|------|---------------|------|------|------|
|         | VAL | COR | GRO  |               | VAL  | COR  | GRO  |
| LC      | 5.0 | 4.9 | 4.8  | LC            | 13.5 | 13.2 | 13.1 |
| MC      | 6.1 | 5.9 | 5.8  | MC            | 14.7 | 13.2 | 11.9 |
| SC      | 9.4 | 9.7 | 10.1 | SC            | 4.2  | 4.9  | 5.6  |

## MARKET SUMMARY

- \* GDP is expected to have risen by 3% in Q4, following a 5% expansion in Q3.
- \* Unemployment continued to fall to 5.6%.
- \* CPI ticked up by 0.8% year over year.
- \* Domestic markets grew across all styles and cap sizes. Small cap stocks gained at a faster pace, while large cap stocks followed behind mid and small caps in Q4.
- \* The US Dollar strengthened relative to the Euro.

## **INVESTMENT RETURN**

On December 31st, 2014, the Alabama PACT's portfolio was valued at \$102,395,124, a decrease of \$39,310,947 from the September ending value of \$141,706,071. Last quarter, the account recorded a net withdrawal of \$39,452,414, which overshadowed the fund's net investment return of \$141,467. The fund's net investment return was a result of income receipts totaling \$899,248 and realized and unrealized capital losses totaling \$757,781.

Since December 2010, the account has recorded net withdrawals totaling \$400.6 million while posting net investment gains totaling \$43.0 million. Since December 2010, if the account earned a compounded nominal rate of 2.0% it would have been valued at \$80.9 million or \$21.5 million less than the actual value as of December 31st, 2014.

*As the portfolio wound down its transition process, residual cash and security balances from many of its former managers remained. These balances will dissipate over time as they are liquidated. Because these residual balances were no longer managed actively, and because a meaningful comparative was not possible, individual performance for these small pieces was not presented in this report.*

## **RELATIVE PERFORMANCE**

### **Total Fund**

For the fourth quarter, the portfolio gained 0.1%, which was 0.1% below the Policy Index's return of 0.2% and ranked in the 77th percentile of the Short-Term Fixed Income universe. Over the trailing twelve-month period, this portfolio returned 1.5%, which was 0.3% greater than the benchmark's 1.2% performance, and ranked in the 25th percentile. Since December 2010, the portfolio returned 3.2% annualized and ranked in the 4th percentile. The Policy Index returned an annualized 1.7% over the same time frame.

### **Fixed Income**

In the fourth quarter, the fixed income portion of the portfolio returned 0.1%, which was 0.8% less than the Intermediate Gov/Credit Index's return of 0.9% and ranked in the 78th percentile of the Short-Term Fixed Income universe. Over the trailing twelve months, this segment returned 1.5%, which was 1.6% less than the benchmark's 3.1% return, and ranked in the 27th percentile. Since December 2010, this component returned 3.2% on an annualized basis and ranked in the 3rd percentile. For comparison, the Intermediate Gov/Credit returned an annualized 3.0% during the same period.

## **ASSET ALLOCATION**

On December 31st, 2014, international equities comprised 0.1% of the total portfolio (\$66,410), while the portfolio's fixed income component totaled 92.4% (\$94.7 million) with cash & equivalents comprising the remaining 7.5% (\$7.7 million).

*The total market value of the Alabama PACT Composite portfolio does not include the cash balance of \$52,890,349 that was in the Treasury Account on December 31<sup>st</sup>.*



**EXECUTIVE SUMMARY****PERFORMANCE SUMMARY**

|                              | -----Annualized----- |      |        |         |             |
|------------------------------|----------------------|------|--------|---------|-------------|
|                              | Quarter              | FYTD | 1 Year | 3 Years | Since 12/10 |
| <b>Total Gross/Fees</b>      | 0.1                  | 0.1  | 1.5    | 2.6     | 3.2         |
| <i>SHORT-TERM FIXED RANK</i> | (77)                 | (77) | (25)   | (14)    | ( 4)        |
| <b>Total Net/Fees</b>        | 0.1                  | 0.1  | 1.3    | 2.4     | 3.0         |
| POLICY INDEX                 | 0.2                  | 0.2  | 1.2    | 1.4     | 1.7         |
| SHADOW INDEX                 | 0.8                  | 0.8  | 3.0    | 2.0     | 2.9         |
| <b>International Equity</b>  | -4.2                 | -4.2 | ----   | ----    | ----        |
| ACWI EX US                   | -3.8                 | -3.8 | -3.4   | 9.5     | 3.3         |
| <b>Fixed Income</b>          | 0.1                  | 0.1  | 1.5    | 2.6     | 3.2         |
| <i>SHORT-TERM FIXED RANK</i> | (78)                 | (78) | (27)   | (15)    | ( 3)        |
| INT GOV/CREDIT               | 0.9                  | 0.9  | 3.1    | 2.0     | 3.0         |
| 1-3 YR GOV/CRED              | 0.2                  | 0.2  | 0.8    | 0.9     | 1.1         |
| BARCLAYS MBS                 | 1.8                  | 1.8  | 6.1    | 2.4     | 3.3         |
| BARCLAYS AGG                 | 1.8                  | 1.8  | 6.0    | 2.7     | 3.9         |

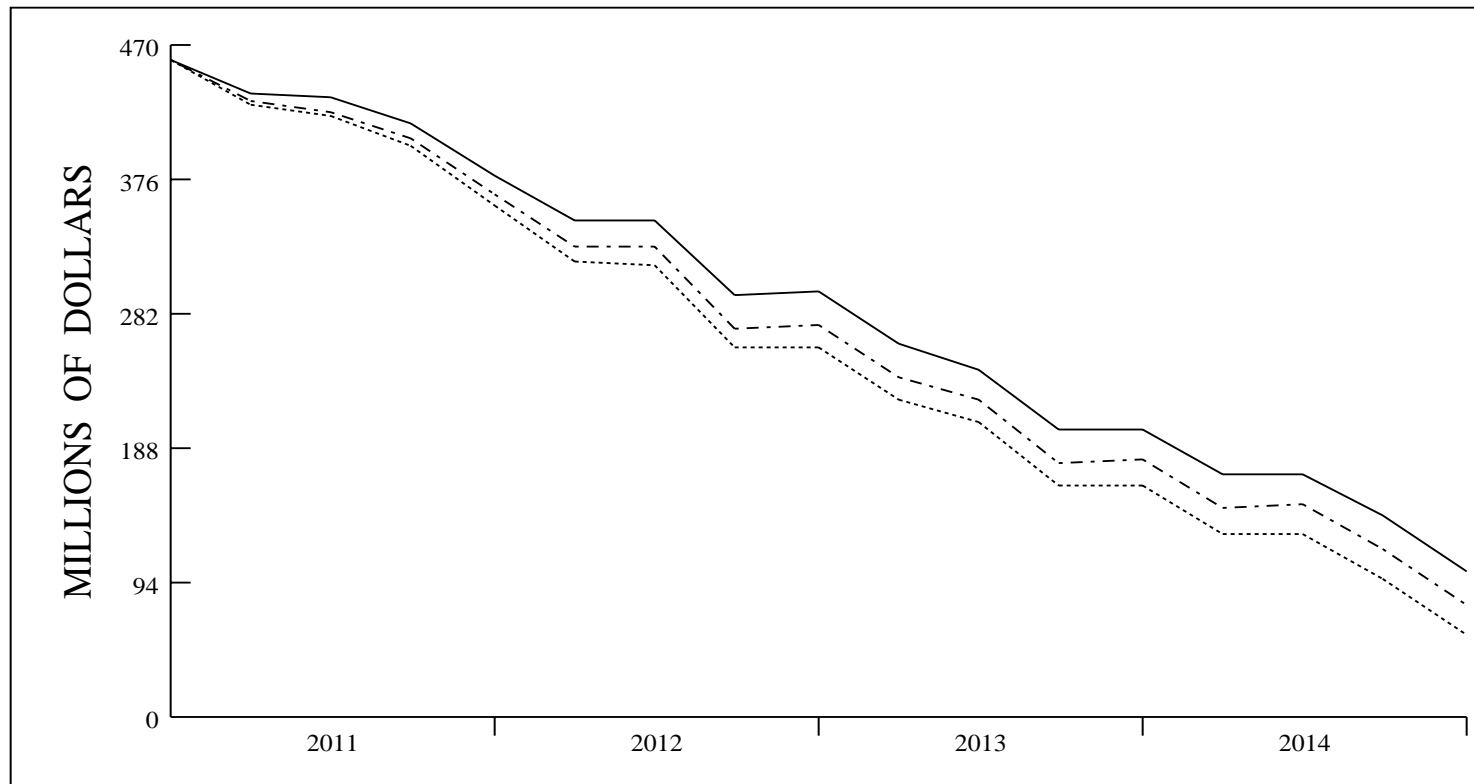
**ASSET ALLOCATION**

|                        |               |                       |
|------------------------|---------------|-----------------------|
| Int'l Equity           | 0.1%          | \$ 66,410             |
| Fixed Income           | 92.4%         | 94,657,194            |
| Cash                   | 7.5%          | 7,671,520             |
| <b>Total Portfolio</b> | <b>100.0%</b> | <b>\$ 102,395,124</b> |

**INVESTMENT RETURN**

|                        |                |
|------------------------|----------------|
| Market Value 9/2014    | \$ 141,706,071 |
| Contribs / Withdrawals | - 39,452,414   |
| Income                 | 899,248        |
| Capital Gains / Losses | -757,781       |
| Market Value 12/2014   | \$ 102,395,124 |

## INVESTMENT GROWTH



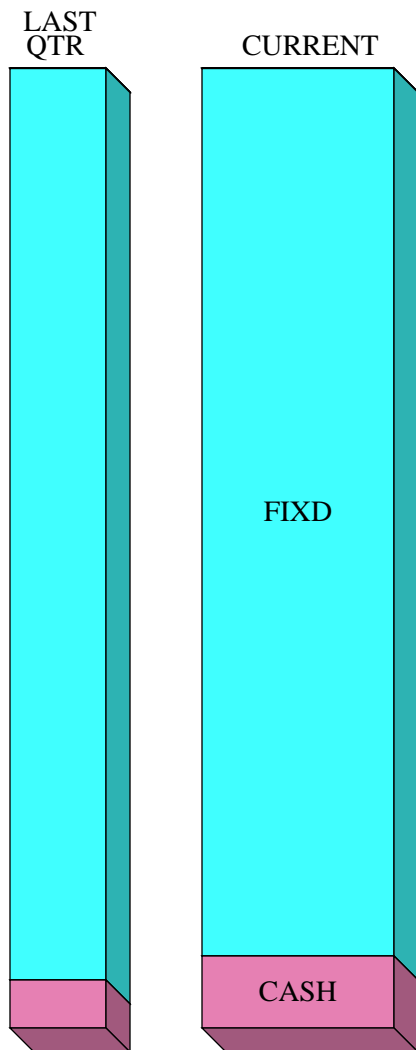
— ACTUAL RETURN  
 - - - 2.0%  
 . . . 0.0%

VALUE ASSUMING  
 2.0% RETURN  
 \$ 80,869,117

|                        | LAST<br>QUARTER | PERIOD<br>12/10 - 12/14 |
|------------------------|-----------------|-------------------------|
| BEGINNING VALUE        | \$ 141,706,071  | \$ 459,991,904          |
| NET CONTRIBUTIONS      | - 39,452,414    | -400,619,127            |
| INVESTMENT RETURN      | 141,469         | 43,022,388              |
| ENDING VALUE           | \$ 102,395,124  | \$ 102,395,124          |
| INCOME                 | 899,248         | 40,527,452              |
| CAPITAL GAINS (LOSSES) | -757,779        | 2,494,936               |
| INVESTMENT RETURN      | 141,469         | 43,022,388              |



## ASSET ALLOCATION



|                      | <u>VALUE</u>            | <u>PERCENT</u> |
|----------------------|-------------------------|----------------|
| INTERNATIONAL EQUITY | \$ 66, 410              | 0.1%           |
| FIXED INCOME         | 94, 657, 194            | 92.4%          |
| CASH & EQUIVALENT    | 7, 671, 520             | 7.5%           |
| <u>TOTAL FUND</u>    | <u>\$ 102, 395, 124</u> | <u>100.0%</u>  |

## MANAGER PERFORMANCE SUMMARY




| Name                                | (Universe) | Quarter         | FYTD            | 1 Year          | 3 Years         | 5 Years         |
|-------------------------------------|------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Total Portfolio                     | (ST Fixed) | 0.1 (77)        | 0.1 (77)        | 1.5 (25)        | 2.6 (14)        | ---- ----       |
| <i>Policy Index</i>                 |            | <i>0.2 ----</i> | <i>0.2 ----</i> | <i>1.2 ----</i> | <i>1.4 ----</i> | <i>3.0 ----</i> |
| Longfellow                          | (ST Fixed) | 0.3 (26)        | 0.3 (26)        | 1.3 (45)        | 1.3 (58)        | ---- ----       |
| Mackay Shields                      | (ST Fixed) | 0.2 (47)        | 0.2 (47)        | 1.0 (72)        | 1.7 (40)        | ---- ----       |
| <i>Barclays 1-3 Year Gov/Credit</i> |            | <i>0.2 ----</i> | <i>0.2 ----</i> | <i>0.8 ----</i> | <i>0.9 ----</i> | <i>1.4 ----</i> |

## MANAGER ALLOCATION SUMMARY




| Prior Quarter<br>Market Value | %    | Fund Name       | Style  | Current Quarter<br>Market Value | %    |
|-------------------------------|------|-----------------|--------|---------------------------------|------|
| \$23,669                      | 0.0  | Acadian         | (INEQ) | \$22,734                        | 0.0  |
| \$15,622                      | 0.0  | New Star        | (INEQ) | \$14,964                        | 0.0  |
| \$30,036                      | 0.0  | Principal       | (INEQ) | \$28,712                        | 0.0  |
| \$3,526,298                   | 2.5  | Mackay Shields  | (FIXD) | \$50,951                        | 0.0  |
| \$1,250                       | 0.0  | Western Asset   | (FIXD) | \$1,250                         | 0.0  |
| \$0                           | 0.0  | Longfellow      | (IFIX) | \$0                             | 0.0  |
| \$0                           | 0.0  | Mackay Shields  | (IFIX) | \$0                             | 0.0  |
| \$63,304,475                  | 44.7 | Longfellow      | (STFX) | \$46,652,670                    | 45.6 |
| \$67,701,831                  | 47.8 | Mackay Shields  | (STFX) | \$47,952,323                    | 46.8 |
| \$1,538,986                   | 1.1  | PACT Cash       | (CASH) | \$1,591,361                     | 1.6  |
| \$5,563,904                   | 3.9  | Regions Lockbox | (CASH) | \$6,080,159                     | 5.9  |

## MANAGER VALUE ADDED

## Most Recent Quarter

| Manager                | Benchmark           | Value Added Vs. Benchmark  |
|------------------------|---------------------|--|
| Longfellow             | 1-3 Yr Gov/Cred     | 0.1   |
| Mackay Shields         | 1-3 Yr Gov/Cred     | 0.0   |
| <b>Total Portfolio</b> | <b>Policy Index</b> |  -0.1 |

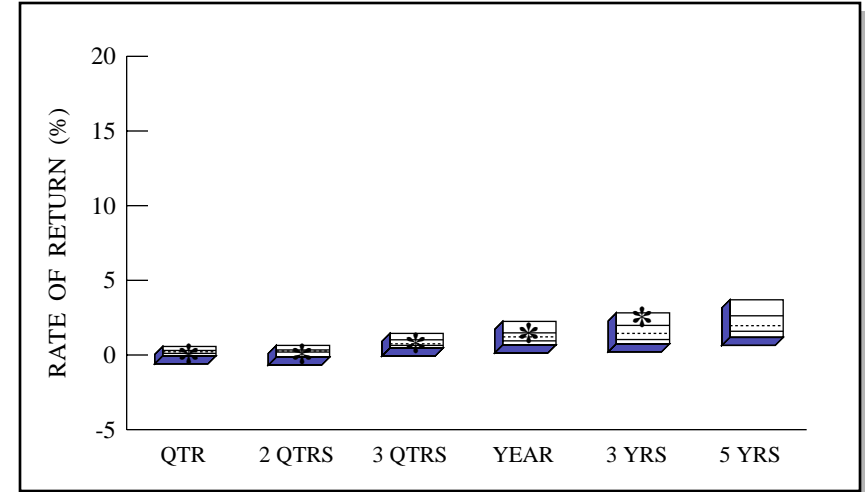
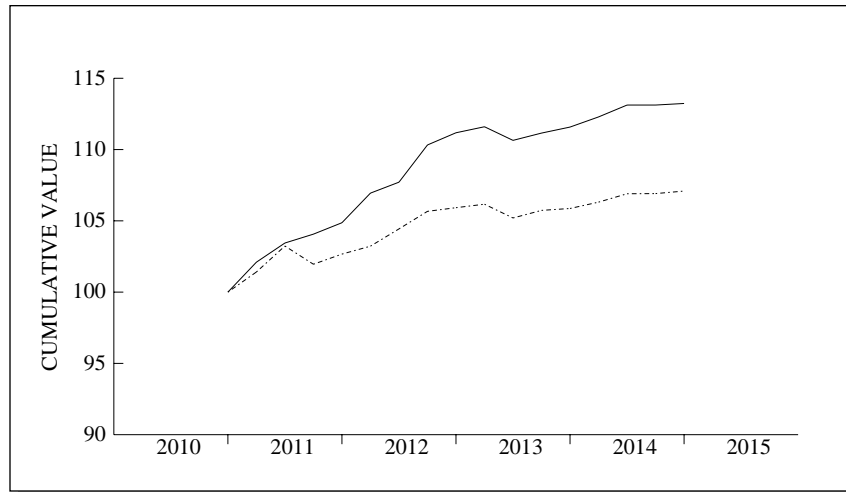
## Trailing Twelve Months

| Manager                | Benchmark           | Value Added Vs. Benchmark   |
|------------------------|---------------------|---|
| Longfellow             | 1-3 Yr Gov/Cred     | 0.5  |
| Mackay Shields         | 1-3 Yr Gov/Cred     | 0.2  |
| <b>Total Portfolio</b> | <b>Policy Index</b> | 0.3  |

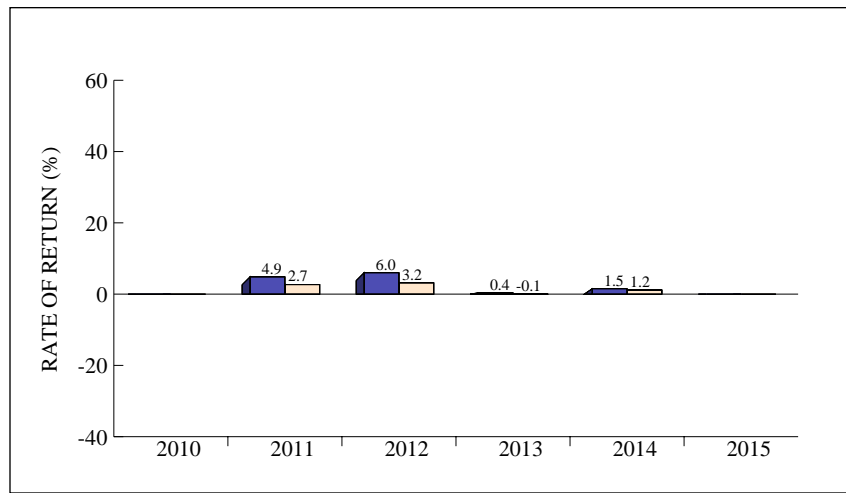
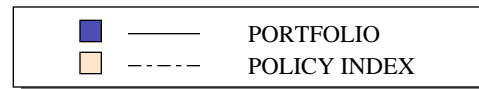
**INVESTMENT RETURN SUMMARY - ONE QUARTER**

| <b>Name</b>            | <b>Quarter<br/>Total<br/>Return</b> | <b>Market<br/>Value<br/>September 30th, 2014</b> | <b>Net<br/>Cashflow</b> | <b>Net<br/>Investment<br/>Return</b> | <b>Market<br/>Value<br/>December 31st, 2014</b> |
|------------------------|-------------------------------------|--|-------------------------|--------------------------------------|---|
| Acadian (INEQ)         | ---                                 | 23,669   | 0                       | -935                                 | 22,734  |
| New Star (INEQ)        | ---                                 | 15,622   | 0                       | -658                                 | 14,964  |
| Principal (INEQ)       | ---                                 | 30,036   | 0                       | -1,324                               | 28,712  |
| Mackay Shields (FIXD)  | ---                                 | 3,526,298  | -3,280,386              | -194,961                             | 50,951  |
| Western Asset (FIXD)   | ---                                 | 1,250  | 0                       | 0                                    | 1,250   |
| Longfellow (STFI)      | 0.3                                 | 63,304,475                                       | -16,830,715             | 178,910                              | 46,652,670                                      |
| Mackay Shields (STFI)  | 0.2                                 | 67,701,831                                       | -19,888,899             | 139,391                              | 47,952,323                                      |
| PACT Cash (CASH)       | ---                                 | 1,538,986  | 31,331                  | 21,044                               | 1,591,361                                       |
| Regions Lockbox (CASH) | ---                                 | 5,563,904  | 516,255                 | 0                                    | 6,080,159                                       |
| <b>Total Fund</b>      | <b>0.1</b>                          | <b>141,706,071</b>                               | <b>-39,452,414</b>      | <b>141,467</b>                       | <b>102,395,124</b>                              |

## TOTAL RETURN COMPARISONS



Short-Term Fixed Universe



|                     | QTR        | 2QTRS      | 3QTRS      | YEAR       | 3 YRS      | 5 YRS      |
|---------------------|------------|------------|------------|------------|------------|------------|
| RETURN              | 0.1        | 0.1        | 0.8        | 1.5        | 2.6        | ---        |
| (RANK)              | (77)       | (84)       | (36)       | (25)       | (14)       | ---        |
| 5TH %ILE            | 0.6        | 0.6        | 1.5        | 2.3        | 2.8        | 3.7        |
| 25TH %ILE           | 0.3        | 0.3        | 1.0        | 1.5        | 2.0        | 2.6        |
| MEDIAN              | 0.2        | 0.3        | 0.8        | 1.2        | 1.5        | 2.0        |
| 75TH %ILE           | 0.1        | 0.2        | 0.6        | 0.9        | 1.0        | 1.6        |
| 95TH %ILE           | -0.1       | -0.1       | 0.5        | 0.7        | 0.8        | 1.2        |
| <i>Policy Index</i> | <i>0.2</i> | <i>0.2</i> | <i>0.7</i> | <i>1.2</i> | <i>1.4</i> | <i>3.0</i> |

Short-Term Fixed Universe

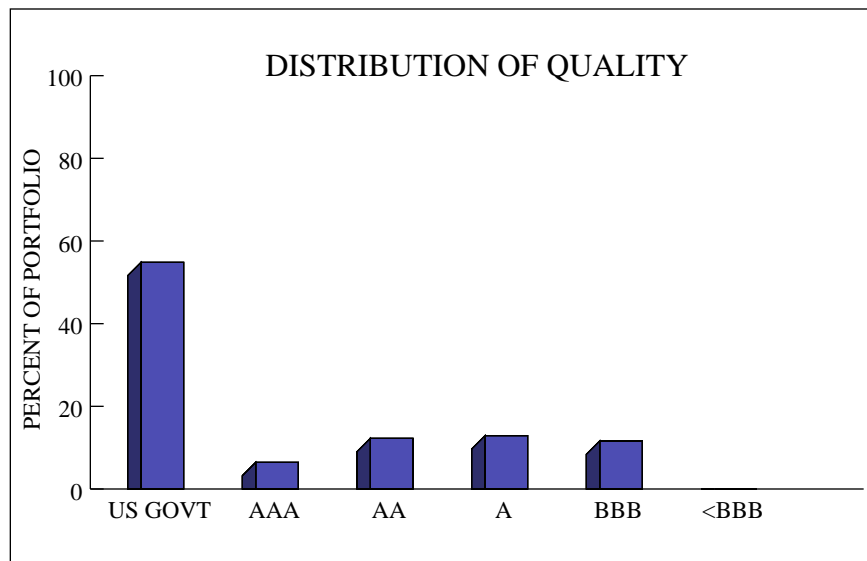
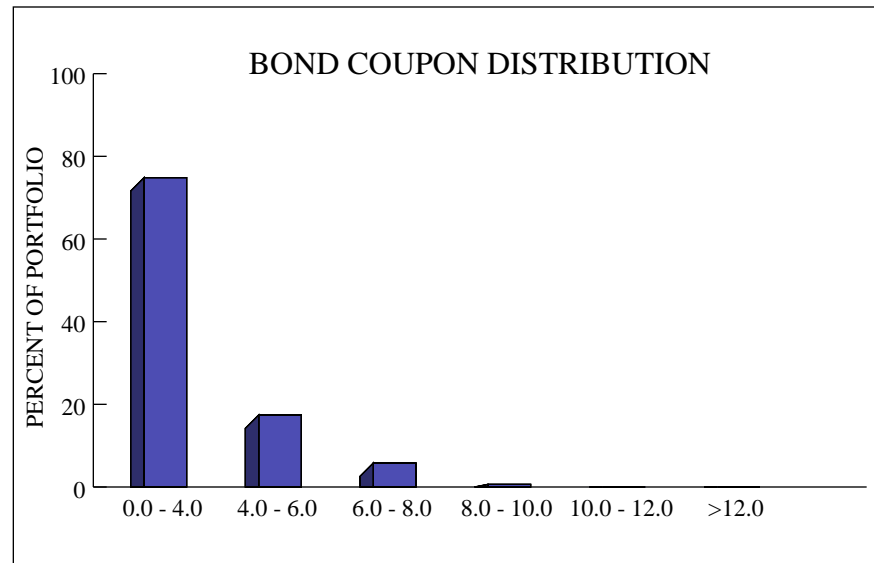
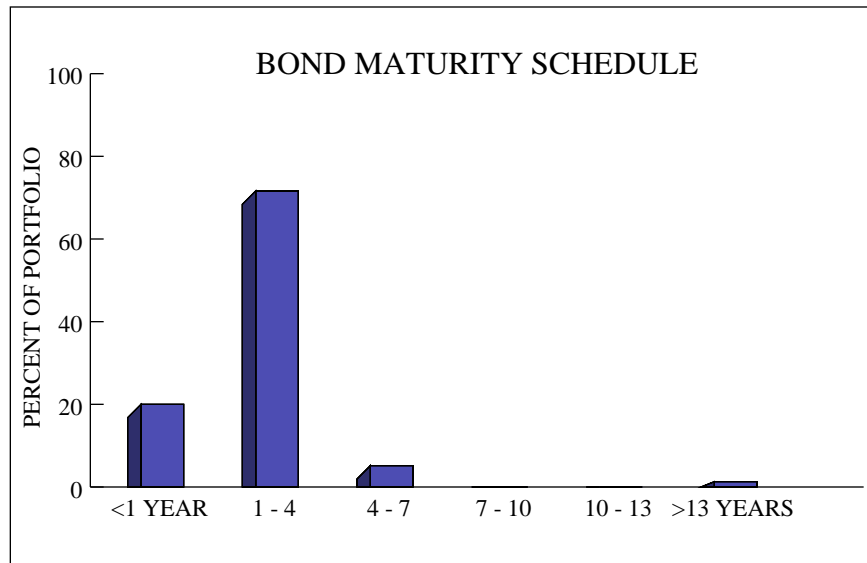
**TOTAL PORTFOLIO QUARTERLY PERFORMANCE SUMMARY****COMPARATIVE BENCHMARK: POLICY INDEX****VARIATION FROM BENCHMARK**

|   |             |
|---|-------------|
| <b>Total Quarters Observed</b>            | <b>16</b>   |
| <b>Quarters At or Above the Benchmark</b> | <b>13</b>   |
| <b>Quarters Below the Benchmark</b>       | <b>3</b>    |
| <b>Batting Average</b>                    | <b>.813</b> |

**RATES OF RETURN**

| Date  | Portfolio | Bench | Diff | -----Cumulative----- |       |      |
|-------|-----------|-------|------|----------------------|-------|------|
|       |           |       |      | Portfolio            | Bench | Diff |
| 3/11  | 2.1       | 1.4   | 0.7  | 2.1                  | 1.4   | 0.7  |
| 6/11  | 1.3       | 1.8   | -0.5 | 3.4                  | 3.2   | 0.2  |
| 9/11  | 0.6       | -1.2  | 1.8  | 4.1                  | 2.0   | 2.1  |
| 12/11 | 0.8       | 0.7   | 0.1  | 4.9                  | 2.7   | 2.2  |
| 3/12  | 2.0       | 0.5   | 1.5  | 6.9                  | 3.2   | 3.7  |
| 6/12  | 0.7       | 1.2   | -0.5 | 7.7                  | 4.4   | 3.3  |
| 9/12  | 2.4       | 1.2   | 1.2  | 10.3                 | 5.7   | 4.6  |
| 12/12 | 0.8       | 0.2   | 0.6  | 11.2                 | 5.9   | 5.3  |
| 3/13  | 0.4       | 0.2   | 0.2  | 11.6                 | 6.2   | 5.4  |
| 6/13  | -0.9      | -0.9  | 0.0  | 10.6                 | 5.2   | 5.4  |
| 9/13  | 0.5       | 0.5   | 0.0  | 11.2                 | 5.7   | 5.5  |
| 12/13 | 0.4       | 0.1   | 0.3  | 11.6                 | 5.9   | 5.7  |
| 3/14  | 0.6       | 0.4   | 0.2  | 12.3                 | 6.3   | 6.0  |
| 6/14  | 0.7       | 0.5   | 0.2  | 13.1                 | 6.9   | 6.2  |
| 9/14  | 0.0       | 0.0   | 0.0  | 13.1                 | 6.9   | 6.2  |
| 12/14 | 0.1       | 0.2   | -0.1 | 13.2                 | 7.1   | 6.1  |



**BOND CHARACTERISTICS**

|                    | PORTFOLIO | INT GOV/CREDIT |
|--------------------|-----------|----------------|
| No. of Securities  | 183       | 4,854          |
| Duration           | 1.78      | 3.89           |
| YTM                | 1.06      | 1.67           |
| Average Coupon     | 2.45      | 2.57           |
| Avg Maturity / WAL | 2.38      | 4.22           |
| Average Quality    | AAA       | USG-AAA        |

**Alabama PACT Longfellow Short Term****Portfolio Value: \$46,652,670**

| <i>Guidelines</i>  | <i>Limit</i> | <i>Portfolio</i> | <i>Compliance</i> |
|--|--------------|------------------|-------------------|
| <i>Fixed:</i>  |              |                  |                   |
| Total market value invested in one issuer                      | 5.0%         | less than 5.0%   | Yes               |
| Holdings as a percentage of total issue outstanding            | 5.0%         | less than 5.0%   | Yes               |
| Average duration must be within 20% of benc                    | 80-120%      | 88.3%            | Yes               |
| All securities must be investment grade                        | 100.0%       | 100.0%           | Yes               |
| Weighted Average Credit Quality                                | A            | Aa2              | Yes               |
| Total market value percentage of MBS, CMBS, and CMO securities | 20.0%        | 14.8%            | Yes               |
| ABS Security Limitation  | 10.0%        | 10.0%            | Yes               |
| Rule 144A security limitation                                  | 10.0%        | 9.7%             | Yes               |
| CBO Investments prohibited                                     | 0.0%         | 0.0%             | Yes               |
| Investments in Principal or Interest-Only CMOs prohibited      | 0.0%         | 0.0%             | Yes               |
| Investments in non US dollar denominated sec                   | 0.0%         | 0.0%             | Yes               |
| Bullet Security maximum maturity limit (years)                 | 5            | less than 5.25   | Yes               |

**MacKay Shields Short Term**

1984

**Portfolio Value: \$47,952,323**

| <i>Guidelines</i>  | <i>Limit</i> | <i>Portfolio</i> | <i>Compliance</i> |
|--|--------------|------------------|-------------------|
| <i>Fixed:</i>  |              |                  |                   |
| Total market value invested in one issuer                      | 5.0%         | 2.2%             | Yes               |
| Holdings as percent of total issue outstanding                 | 5.0%         | 0.2%             | Yes               |
| Average duration must be within 20% of benchmark duration      | 20.0%        | 1.9%             | Yes               |
| All securities must be investment grade                        | 100.0%       | 100.0%           | Yes               |
| Weighted Average Credit Quality                                | A            | AA               | Yes               |
| Total market value percentage of MBS, CMBS, and CMO securities | 20.0%        | 2.9%             | Yes               |
| ABS Security Limitation  | 10.0%        | 0.0%             | Yes               |
| Rule 144A security limitation                                  | 10.0%        | 3.2%             | Yes               |
| CBO Investments prohibited                                     | 0.0%         | 0.0%             | Yes               |
| Investments in Principal or Interest-Only CMOs prohibited      | 0.0%         | 0.0%             | Yes               |
| Investments in Foreign Securities prohibited                   | 0.0%         | 0.0%             | Yes               |
| Bullet Security maximum maturity limit (years)                 | 10           | 0                | Yes               |

## APPENDIX - MAJOR MARKET INDEX RETURNS

| Equity                          | Style                      | QTR   | FYTD  | 1 Year | 3 years | 5 Years |
|---------------------------------|----------------------------|-------|-------|--------|---------|---------|
| Russell 3000                    | Broad Equity               | 5.2   | 5.2   | 12.6   | 20.5    | 15.6    |
| S&P 500                         | Large Cap Core             | 4.9   | 4.9   | 13.7   | 20.4    | 15.4    |
| Russell 1000                    | Large Cap Core             | 4.9   | 4.9   | 13.2   | 20.6    | 15.6    |
| Russell 1000 Growth             | Large Cap Growth           | 4.8   | 4.8   | 13.1   | 20.3    | 15.8    |
| Russell 1000 Value              | Large Cap Value            | 5.0   | 5.0   | 13.5   | 20.9    | 15.4    |
| Russell 2000                    | Small Cap                  | 9.7   | 9.7   | 4.9    | 19.2    | 15.5    |
| Russell 2000 Growth             | Small Cap Growth           | 10.1  | 10.1  | 5.6    | 20.1    | 16.8    |
| Russell 2000 Value              | Small Cap Value            | 9.4   | 9.4   | 4.2    | 18.3    | 14.3    |
| MSCI EAFE                       | Developed Markets          | -3.5  | -3.5  | -4.5   | 11.6    | 5.8     |
| MSCI EAFE Growth                | Developed Markets Growth   | -2.3  | -2.3  | -4.1   | 11.4    | 6.6     |
| MSCI EAFE Value                 | Developed Markets Value    | -4.8  | -4.8  | -4.9   | 11.6    | 5.0     |
| MSCI Emerging Markets           | Emerging Markets           | -4.4  | -4.4  | -1.8   | 4.4     | 2.1     |
| MSCI All Country World          | Global Equity              | 0.5   | 0.5   | 4.7    | 14.7    | 9.7     |
| MSCI All Country World Ex US    | Global Equity (ex. US)     | -3.8  | -3.8  | -3.4   | 9.5     | 4.9     |
| Fixed Income                    | Style                      | QTR   | FYTD  | 1 Year | 3 years | 5 Years |
| Barclays Aggregate Index        | Core Fixed Income          | 1.8   | 1.8   | 6.0    | 2.7     | 4.5     |
| Barclays Gov/Credit             | Gov/Credit                 | 1.8   | 1.8   | 6.0    | 2.8     | 4.7     |
| Barclays Capital Gov't Bond     | Treasuries                 | 1.9   | 1.9   | 4.9    | 1.4     | 3.7     |
| Barclays Capital Credit Bond    | Corporate Bonds            | 1.8   | 1.8   | 7.5    | 4.8     | 6.3     |
| Intermediate Aggregate          | Core Intermediate          | 1.2   | 1.2   | 4.1    | 2.2     | 3.7     |
| Intermediate Gov/Credit         | Gov / Credit Intermediate  | 0.9   | 0.9   | 3.1    | 2.0     | 3.5     |
| ML/BoA 1-3 Year Treasury        | Short Term Treasuries      | 0.2   | 0.2   | 0.6    | 0.3     | 1.0     |
| CSFB High Yield                 | High Yield Bonds           | -1.6  | -1.6  | 1.9    | 7.9     | 8.7     |
| Barclays Global Ex US           | International Treasuries   | -3.1  | -3.1  | -2.8   | -1.8    | -0.7    |
| Citi World Gov't Bond Index     | International Fixed Income | -1.5  | -1.5  | -0.5   | -1.0    | 1.7     |
| Barclays Global Aggregate       | International Fixed Income | -1.0  | -1.0  | 0.6    | 0.7     | 2.6     |
| Barclays Global Aggregate Ex US | International Fixed Income | -3.0  | -3.0  | -3.1   | -0.8    | 1.4     |
| Alternative Assets              | Style                      | QTR   | FYTD  | 1 Year | 3 years | 5 Years |
| MSCI US REIT Index              | REITs                      | 14.3  | 14.3  | 30.4   | 16.3    | 17.0    |
| NCREIF NFI-ODCE Index           | Real Estate                | 3.3   | 3.3   | 12.5   | 12.4    | 13.9    |
| NCREIF Timber Index             | Timber                     | 0.0   | 0.0   | 4.2    | 7.2     | 4.6     |
| Bloomberg Commodity Index       | Commodities                | -12.1 | -12.1 | -17.0  | -9.4    | -5.5    |
| HFRI FOF Composite              | Hedge Funds                | 0.9   | 0.9   | 3.4    | 5.7     | 3.3     |

**APPENDIX - DISCLOSURES**

- \* The Policy Index is a policy-weighted passive index that was constructed as follows:

For all periods through 9/30/2011:

|  |                      |                        |
|--|----------------------|------------------------|
| 14.0% Russell 3000                       | 6.0% MSCI ACWI ex-US | 27% Barclays Aggregate |
| 53.0% Intermediate Duration Hybrid Index |                      |                        |

From 10/1/2011 through 9/30/2012:

|  |                                    |
|--|------------------------------------|
| 75.0% Barclays Intermediate Gov/Credit | 25.0% Barclays 1-3 Year Gov/Credit |
|--|------------------------------------|

From 10/1/2012 through 9/30/2013:

|  |                                    |
|--|------------------------------------|
| 50.0% Barclays Intermediate Gov/Credit | 50.0% Barclays 1-3 Year Gov/Credit |
|--|------------------------------------|

From 10/1/2013 through 9/30/2014:

|  |                                    |
|--|------------------------------------|
| 25.0% Barclays Intermediate Gov/Credit | 75.0% Barclays 1-3 Year Gov/Credit |
|--|------------------------------------|

From 10/1/2014 through 9/30/2015:

|                                     |
|-------------------------------------|
| 100.0% Barclays 1-3 Year Gov/Credit |
|-------------------------------------|

From 10/1/2015 through 9/30/2016:

|                                     |
|-------------------------------------|
| 100.0% Barclays 1-3 Year Gov/Credit |
|-------------------------------------|

- \* The shadow index is a customized index that matches your portfolio's asset allocation on a quarterly basis.

This index was calculated using the following asset classes and corresponding benchmarks:

|                      |                              |
|----------------------|------------------------------|
| International Equity | MSCI All Country World Ex US |
| Fixed Income         | Intermediate Gov/Credit      |
| Cash & Equivalent    | 90 Day T Bill                |

- \* Dahab Associates utilizes data provided by a custodian and other vendors it believes are reliable. However, it cannot assume responsibility for errors and omissions therefrom.
- \* All returns were calculated on a time-weighted basis, and are gross of fees unless otherwise noted.
- \* All returns for periods greater than one year are annualized.
- \* All values are in US dollars.

ALABAMA PACT  
LONGFELLOW - SHORT TERM  
PERFORMANCE REVIEW  
DECEMBER 2014

## **INVESTMENT RETURN**

On December 31st, 2014, the Alabama PACT's Longfellow Short Term portfolio was valued at \$46,652,670, a decrease of \$16,651,805 from the September ending value of \$63,304,475. Last quarter, the account recorded a net withdrawal of \$16,830,715, which overshadowed the fund's net investment return of \$178,910. The fund's net investment return was a result of income receipts totaling \$463,250 and realized and unrealized capital losses totaling \$284,340.

Since September 2011, the account has recorded net contributions totaling \$4.5 million, and generated net investment gains totaling \$2.2 million. Since September 2011, if the account had earned a compounded nominal rate of 2.0% it would have been valued at \$47.9 million or \$1.3 million more than the actual value as of December 31st, 2014.

## **RELATIVE PERFORMANCE**

For the fourth quarter, the Longfellow Short Term portfolio gained 0.3%, which was 0.1% above the Barclays 1-3 Year Gov/Credit Index's return of 0.2% and ranked in the 26th percentile of the Short-Term Fixed Income universe. Over the trailing twelve-month period, this portfolio returned 1.3%, which was 0.5% greater than the benchmark's 0.8% performance, and ranked in the 45th percentile. Since September 2011, the portfolio returned 1.4% annualized and ranked in the 56th percentile. The Barclays 1-3 Year Gov/Credit returned an annualized 0.9% over the same time frame.

## **BOND ANALYSIS**

At the end of the quarter, USG rated securities comprised approximately 50% of the bond portfolio, while corporate securities, rated AAA through BBB, comprised the remainder, giving the portfolio an overall average quality rating of AAA. The average maturity of the portfolio was 2.6 years, longer than the Barclays 1-3 Year Gov/Credit Index's 2.0-year maturity. The average coupon was 3.0%.

**EXECUTIVE SUMMARY****PERFORMANCE SUMMARY**

|                              | -----Annualized----- |      |        |         |             |
|------------------------------|----------------------|------|--------|---------|-------------|
|                              | Quarter              | FYTD | 1 Year | 3 Years | Since 09/11 |
| <b>Total Gross/Fees</b>      | 0.3                  | 0.3  | 1.3    | 1.3     | 1.4         |
| <i>SHORT-TERM FIXED RANK</i> | (26)                 | (26) | (45)   | (58)    | (56)        |
| <b>Total Net/Fees</b>        | 0.2                  | 0.2  | 1.1    | 1.1     | 1.2         |
| 1-3 YR GOV/CRED              | 0.2                  | 0.2  | 0.8    | 0.9     | 0.9         |
| <b>Fixed Income</b>          | 0.3                  | 0.3  | 1.3    | 1.3     | 1.4         |
| <i>SHORT-TERM FIXED RANK</i> | (26)                 | (26) | (45)   | (58)    | (56)        |
| 1-3 YR GOV/CRED              | 0.2                  | 0.2  | 0.8    | 0.9     | 0.9         |

**ASSET ALLOCATION**

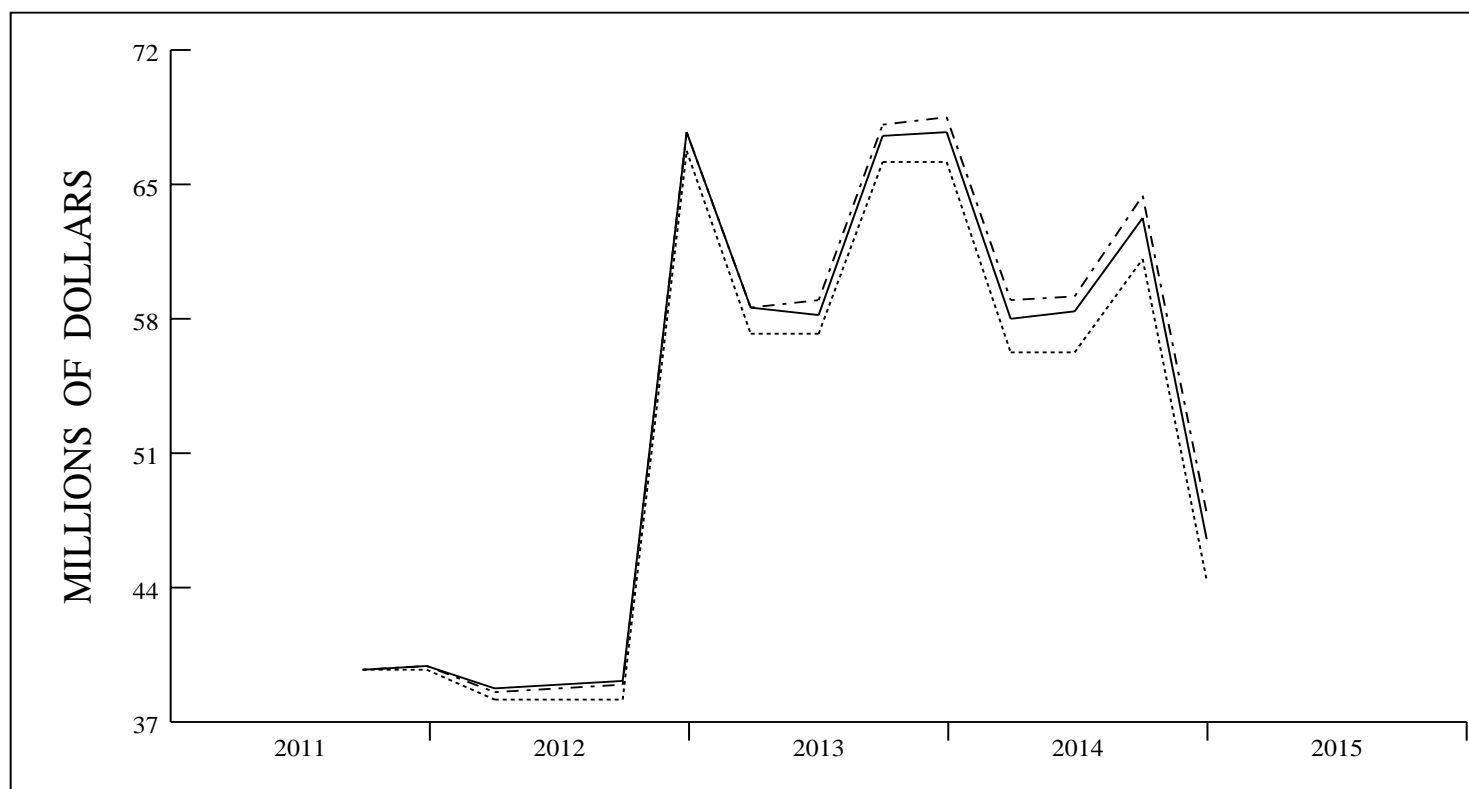
|                 |        |               |
|-----------------|--------|---------------|
| Fixed Income    | 100.0% | \$ 46,652,670 |
| Total Portfolio | 100.0% | \$ 46,652,670 |

**INVESTMENT RETURN**

|                        |               |
|------------------------|---------------|
| Market Value 9/2014    | \$ 63,304,475 |
| Contribs / Withdrawals | - 16,830,715  |
| Income                 | 463,250       |
| Capital Gains / Losses | -284,340      |
| Market Value 12/2014   | \$ 46,652,670 |



## INVESTMENT GROWTH

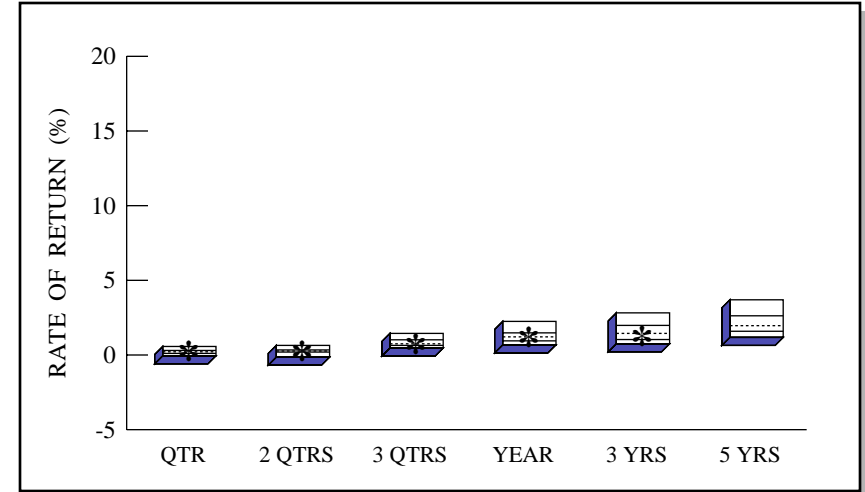
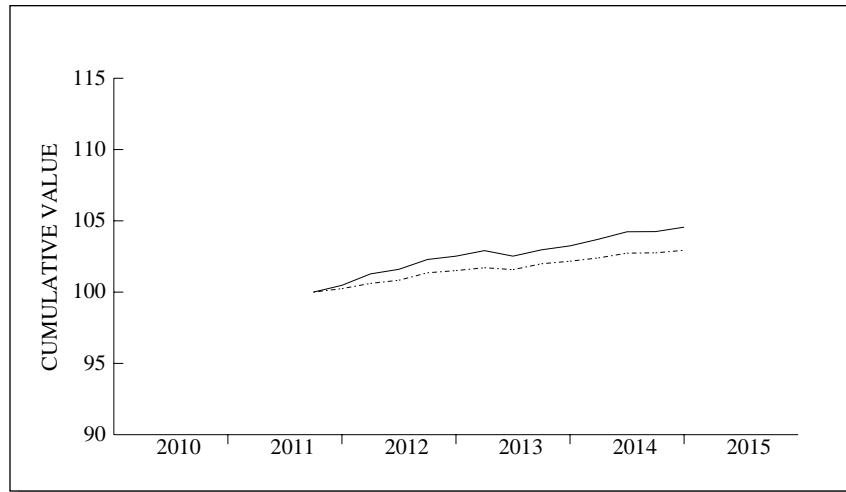


— ACTUAL RETURN  
 - - - 2.0%  
 . . . 0.0%

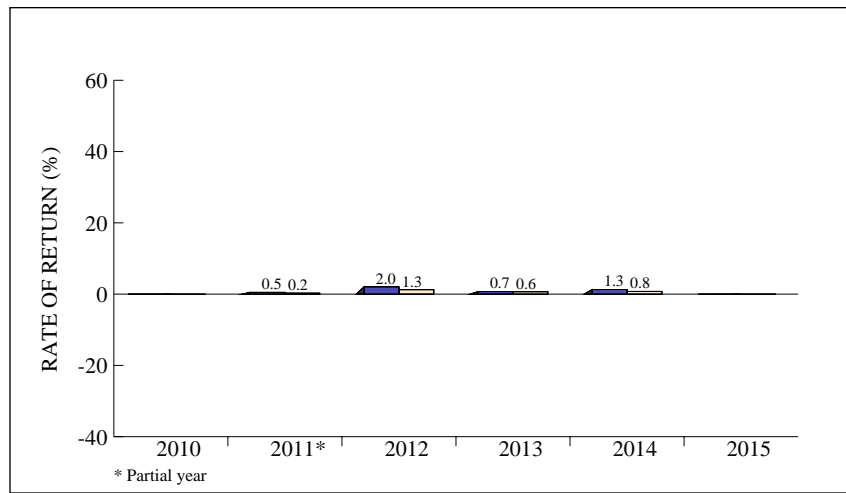
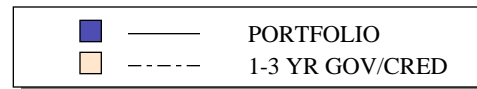
VALUE ASSUMING  
 2.0% RETURN  
 \$ 47,905,113

|                        | LAST<br>QUARTER | PERIOD<br>9/11 - 12/14 |
|------------------------|-----------------|------------------------|
| BEGINNING VALUE        | \$ 63,304,475   | \$ 39,896,277          |
| NET CONTRIBUTIONS      | - 16,830,715    | 4,548,042              |
| INVESTMENT RETURN      | 178,911         | 2,208,350              |
| ENDING VALUE           | \$ 46,652,670   | \$ 46,652,670          |
| INCOME                 | 463,250         | 5,266,806              |
| CAPITAL GAINS (LOSSES) | -284,339        | - 3,058,456            |
| INVESTMENT RETURN      | 178,911         | 2,208,350              |

## TOTAL RETURN COMPARISONS

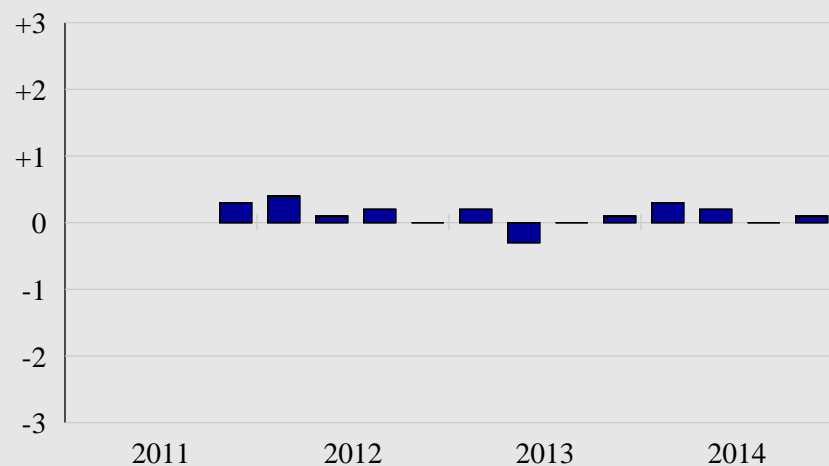


Short-Term Fixed Universe



|                   | QTR        | 2QTRS      | 3QTRS      | YEAR       | 3 YRS      | 5 YRS      |
|-------------------|------------|------------|------------|------------|------------|------------|
| RETURN            | 0.3        | 0.3        | 0.8        | 1.3        | 1.3        | ---        |
| (RANK)            | (26)       | (35)       | (44)       | (45)       | (58)       | ---        |
| 5TH %ILE          | 0.6        | 0.6        | 1.5        | 2.3        | 2.8        | 3.7        |
| 25TH %ILE         | 0.3        | 0.3        | 1.0        | 1.5        | 2.0        | 2.6        |
| MEDIAN            | 0.2        | 0.3        | 0.8        | 1.2        | 1.5        | 2.0        |
| 75TH %ILE         | 0.1        | 0.2        | 0.6        | 0.9        | 1.0        | 1.6        |
| 95TH %ILE         | -0.1       | -0.1       | 0.5        | 0.7        | 0.8        | 1.2        |
| <b>1-3 Yr G/C</b> | <b>0.2</b> | <b>0.2</b> | <b>0.5</b> | <b>0.8</b> | <b>0.9</b> | <b>1.4</b> |

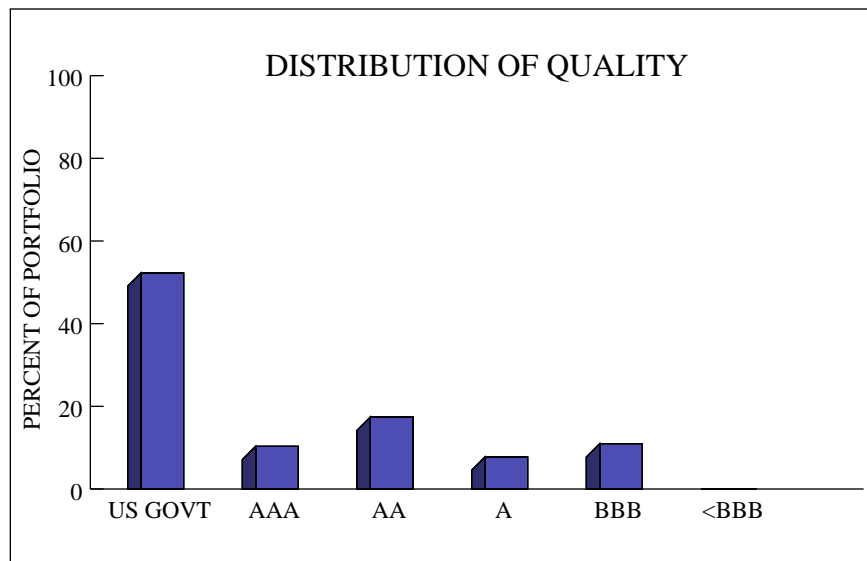
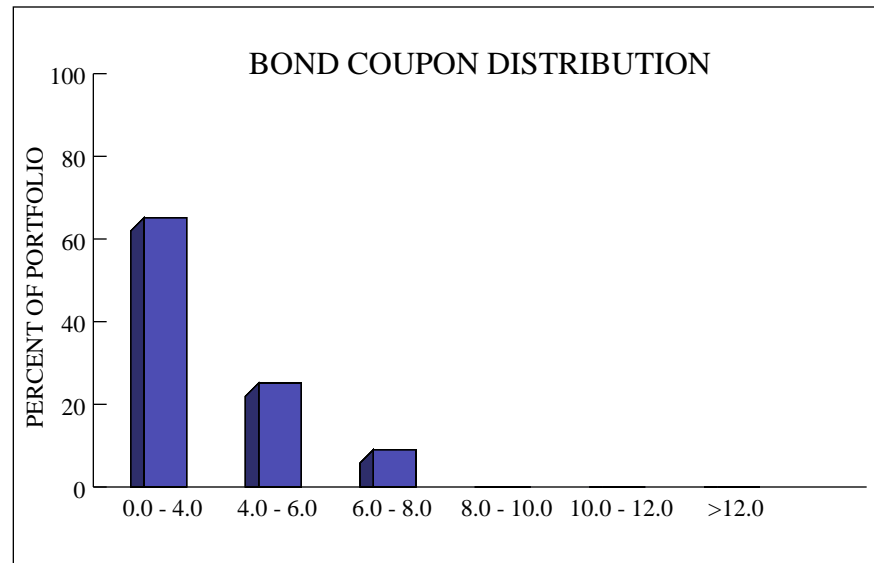
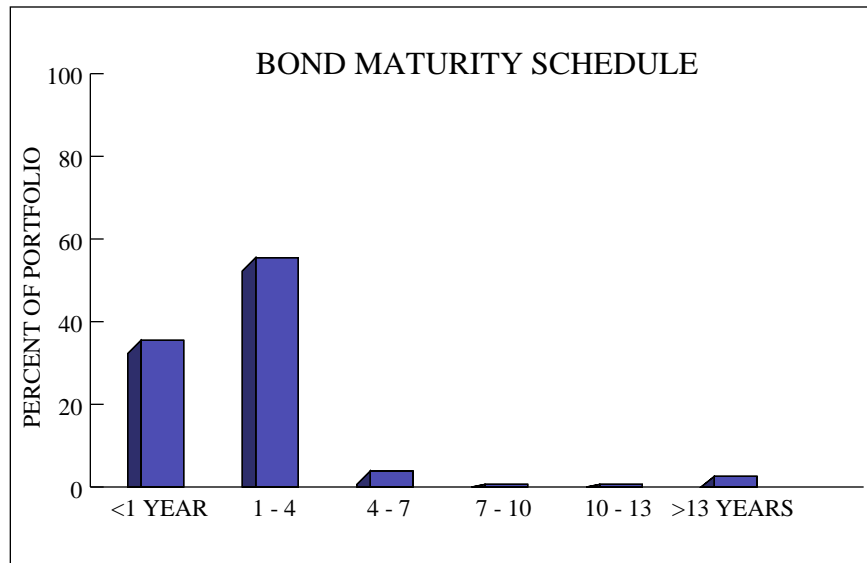
Short-Term Fixed Universe

**TOTAL PORTFOLIO QUARTERLY PERFORMANCE SUMMARY****COMPARATIVE BENCHMARK: BARCLAYS 1-3 YEAR GOV/CREDIT****VARIATION FROM BENCHMARK**

|   |             |
|---|-------------|
| <b>Total Quarters Observed</b>            | <b>13</b>   |
| <b>Quarters At or Above the Benchmark</b> | <b>12</b>   |
| <b>Quarters Below the Benchmark</b>       | <b>1</b>    |
| <b>Batting Average</b>                    | <b>.923</b> |

**RATES OF RETURN**

| Date  | Portfolio | Bench | Diff | -----Cumulative----- |       |      |
|-------|-----------|-------|------|----------------------|-------|------|
|       |           |       |      | Portfolio            | Bench | Diff |
| 12/11 | 0.5       | 0.2   | 0.3  | 0.5                  | 0.2   | 0.3  |
| 3/12  | 0.8       | 0.4   | 0.4  | 1.3                  | 0.6   | 0.7  |
| 6/12  | 0.3       | 0.2   | 0.1  | 1.6                  | 0.8   | 0.8  |
| 9/12  | 0.7       | 0.5   | 0.2  | 2.3                  | 1.4   | 0.9  |
| 12/12 | 0.2       | 0.2   | 0.0  | 2.5                  | 1.5   | 1.0  |
| 3/13  | 0.4       | 0.2   | 0.2  | 2.9                  | 1.7   | 1.2  |
| 6/13  | -0.4      | -0.1  | -0.3 | 2.5                  | 1.6   | 0.9  |
| 9/13  | 0.4       | 0.4   | 0.0  | 3.0                  | 2.0   | 1.0  |
| 12/13 | 0.3       | 0.2   | 0.1  | 3.2                  | 2.2   | 1.0  |
| 3/14  | 0.5       | 0.2   | 0.3  | 3.7                  | 2.4   | 1.3  |
| 6/14  | 0.5       | 0.3   | 0.2  | 4.2                  | 2.7   | 1.5  |
| 9/14  | 0.0       | 0.0   | 0.0  | 4.2                  | 2.8   | 1.4  |
| 12/14 | 0.3       | 0.2   | 0.1  | 4.6                  | 2.9   | 1.7  |

**BOND CHARACTERISTICS**

|                    | PORTFOLIO | BC 1-3 GC |
|--------------------|-----------|-----------|
| No. of Securities  | 111       | 1,584     |
| Duration           | 1.63      | 1.93      |
| YTM                | 1.26      | 0.89      |
| Average Coupon     | 3.04      | 2.00      |
| Avg Maturity / WAL | 2.63      | 1.98      |
| Average Quality    | AAA       | USG-AAA   |

ALABAMA PACT  
MACKAY SHIELDS - SHORT TERM FUND  
PERFORMANCE REVIEW  
DECEMBER 2014

## **INVESTMENT RETURN**

On December 31st, 2014, the Alabama PACT's Mackay Shields Short Term Fund was valued at \$47,952,323, which represented a decrease of \$19,749,508 from the September quarter's ending value of \$67,701,831. During the last three months, the fund recorded withdrawals totaling \$19,888,899, which overshadowed the fund's net investment return of \$139,391. The fund's net investment return was composed of \$373,073 in income receipts and realized and unrealized capital losses of \$233,682.

For the cumulative period since September 2011, the portfolio has recorded net withdrawals totaling \$4.6 million in addition to net investment gains totaling \$2.9 million. For the period since September 2011, if the total portfolio earned a compounded nominal rate of 2.0% it would have been worth \$48.7 million or \$708,961 more than its actual value as of December 31st, 2014.

## **RELATIVE PERFORMANCE**

For the fourth quarter, the Mackay Shields Short Term Fund returned 0.2%, which was equal to the Barclays 1-3 Year Gov/Credit Index's return of 0.2% and ranked in the 47th percentile of the Short-Term Fixed Income universe. Over the trailing year, this portfolio returned 1.0%, which was 0.2% above the benchmark's 0.8% performance, and ranked in the 72nd percentile. Since September 2011, the portfolio returned 1.8% annualized and ranked in the 34th percentile. For comparison, the Barclays 1-3 Year Gov/Credit returned an annualized 0.9% over the same time frame.

## **BOND ANALYSIS**

At the end of the quarter, USG rated securities comprised nearly 60% of the bond portfolio, while corporate securities, rated AAA through BBB, made up the remainder, giving the portfolio an overall average quality rating of AAA. The average maturity of the portfolio was 2.1 years, longer than the Barclays 1-3 Year Gov/Credit Index's 2.0-year maturity. The average coupon was 1.8%.

**EXECUTIVE SUMMARY****PERFORMANCE SUMMARY**

|                              | -----Annualized----- |      |        |         |             |
|------------------------------|----------------------|------|--------|---------|-------------|
|                              | Quarter              | FYTD | 1 Year | 3 Years | Since 09/11 |
| <b>Total Gross/Fees</b>      | 0.2                  | 0.2  | 1.0    | 1.7     | 1.8         |
| <i>SHORT-TERM FIXED RANK</i> | (47)                 | (47) | (72)   | (40)    | (34)        |
| <b>Total Net/Fees</b>        | 0.2                  | 0.2  | 0.8    | 1.5     | 1.6         |
| 1-3 YR GOV/CRED              | 0.2                  | 0.2  | 0.8    | 0.9     | 0.9         |
| <b>Fixed Income</b>          | 0.2                  | 0.2  | 1.0    | 1.7     | 1.8         |
| <i>SHORT-TERM FIXED RANK</i> | (47)                 | (47) | (72)   | (40)    | (34)        |
| 1-3 YR GOV/CRED              | 0.2                  | 0.2  | 0.8    | 0.9     | 0.9         |

**ASSET ALLOCATION**

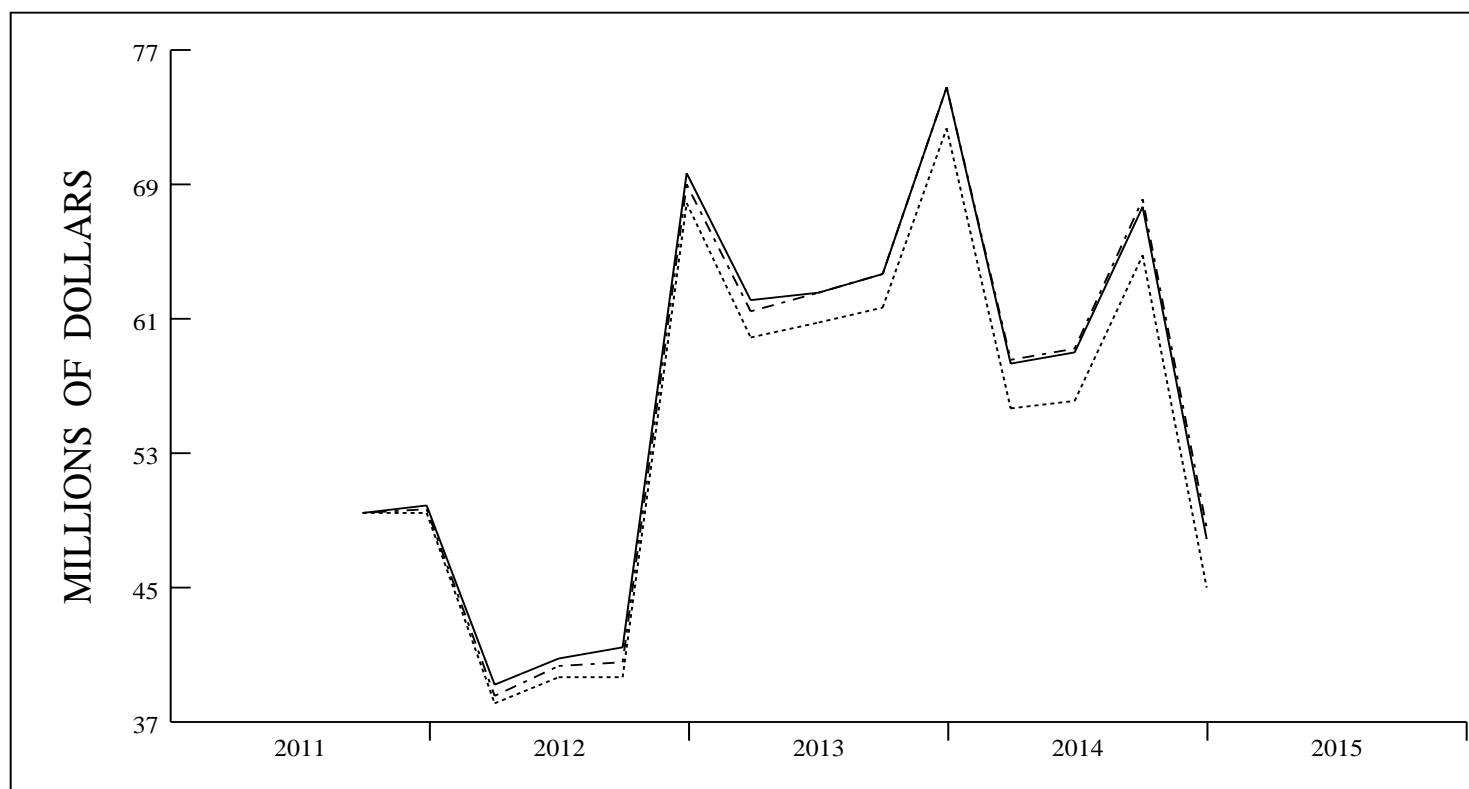
|                 |        |               |
|-----------------|--------|---------------|
| Fixed Income    | 100.0% | \$ 47,952,323 |
| Total Portfolio | 100.0% | \$ 47,952,323 |

**INVESTMENT RETURN**

|                        |               |
|------------------------|---------------|
| Market Value 9/2014    | \$ 67,701,831 |
| Contribs / Withdrawals | - 19,888,899  |
| Income                 | 373,073       |
| Capital Gains / Losses | -233,682      |
| Market Value 12/2014   | \$ 47,952,323 |



## INVESTMENT GROWTH

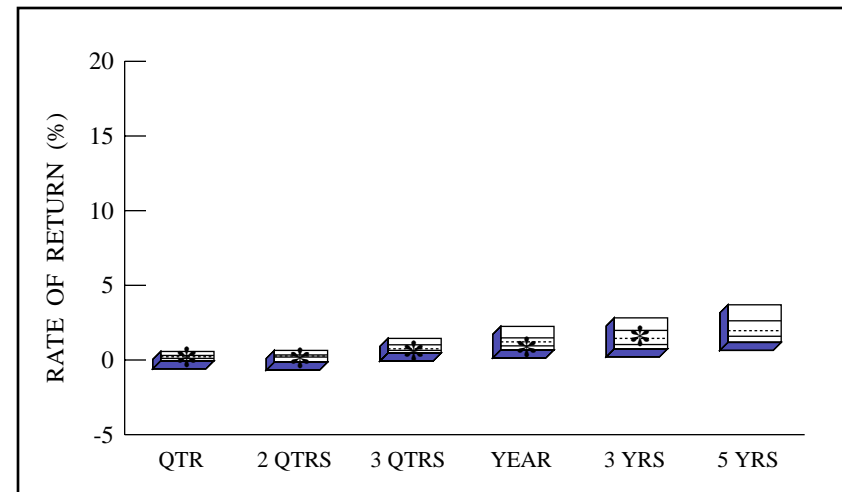
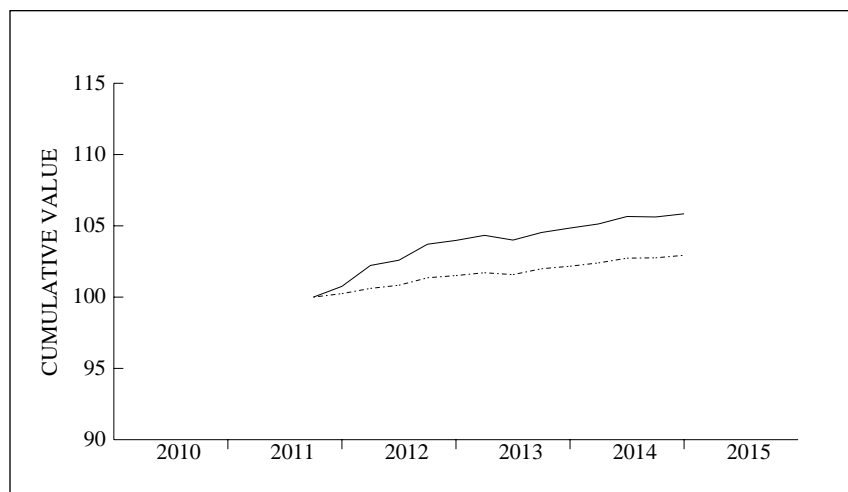


— ACTUAL RETURN  
 - - - 2.0%  
 . . . 0.0%

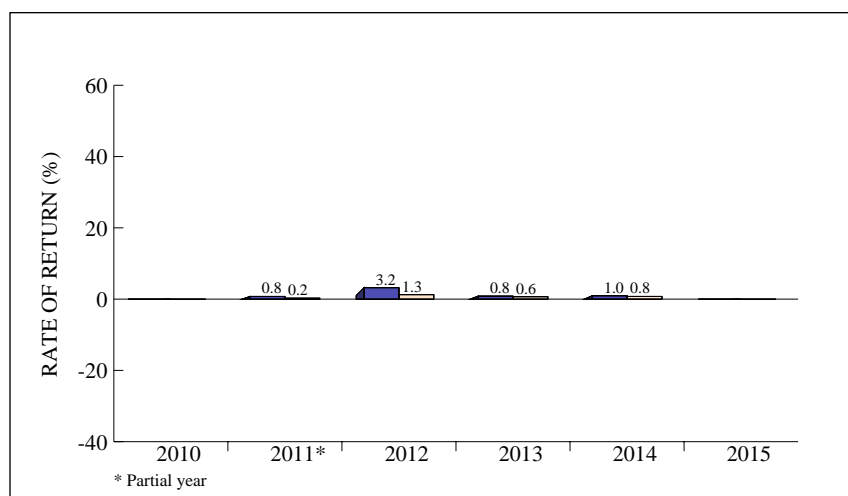
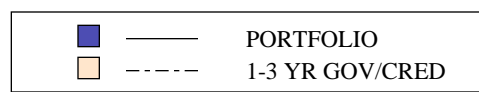
VALUE ASSUMING  
 2.0% RETURN  
 \$ 48,661,284

|                        | LAST<br>QUARTER | PERIOD<br>9/11 - 12/14 |
|------------------------|-----------------|------------------------|
| BEGINNING VALUE        | \$ 67,701,831   | \$ 49,587,366          |
| NET CONTRIBUTIONS      | - 19,888,899    | - 4,558,181            |
| INVESTMENT RETURN      | 139,392         | 2,923,136              |
| ENDING VALUE           | \$ 47,952,323   | \$ 47,952,323          |
| INCOME                 | 373,073         | 4,673,072              |
| CAPITAL GAINS (LOSSES) | -233,681        | - 1,749,936            |
| INVESTMENT RETURN      | 139,392         | 2,923,136              |

## TOTAL RETURN COMPARISONS

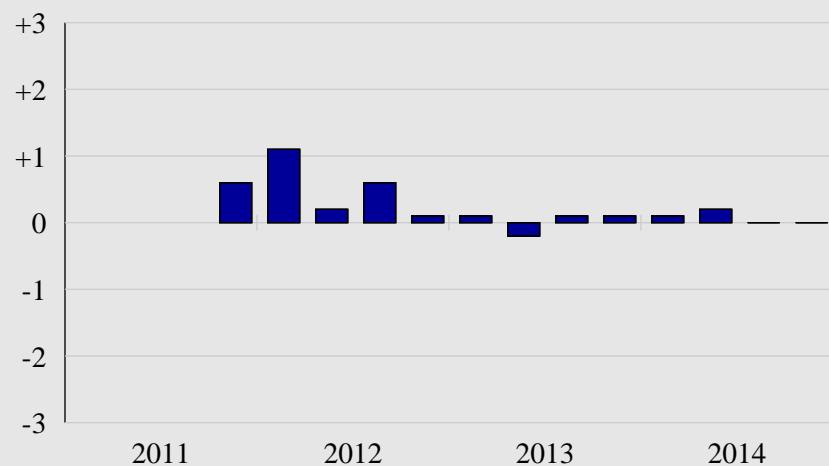


Short-Term Fixed Universe



|                   | QTR        | 2QTRS      | 3QTRS      | YEAR       | 3 YRS      | 5 YRS      |
|-------------------|------------|------------|------------|------------|------------|------------|
| RETURN            | 0.2        | 0.2        | 0.7        | 1.0        | 1.7        | ---        |
| (RANK)            | (47)       | (76)       | (67)       | (72)       | (40)       | ---        |
| 5TH %ILE          | 0.6        | 0.6        | 1.5        | 2.3        | 2.8        | 3.7        |
| 25TH %ILE         | 0.3        | 0.3        | 1.0        | 1.5        | 2.0        | 2.6        |
| MEDIAN            | 0.2        | 0.3        | 0.8        | 1.2        | 1.5        | 2.0        |
| 75TH %ILE         | 0.1        | 0.2        | 0.6        | 0.9        | 1.0        | 1.6        |
| 95TH %ILE         | -0.1       | -0.1       | 0.5        | 0.7        | 0.8        | 1.2        |
| <b>1-3 Yr G/C</b> | <b>0.2</b> | <b>0.2</b> | <b>0.5</b> | <b>0.8</b> | <b>0.9</b> | <b>1.4</b> |

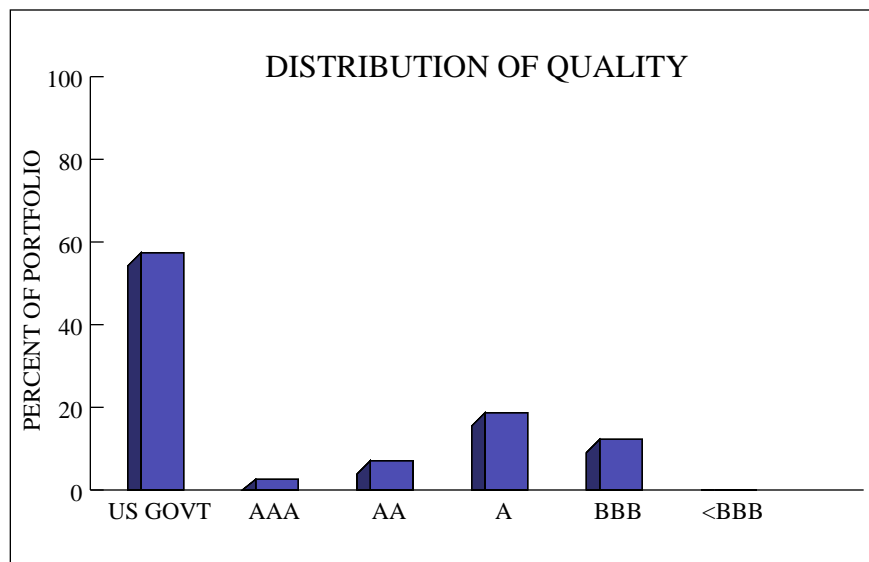
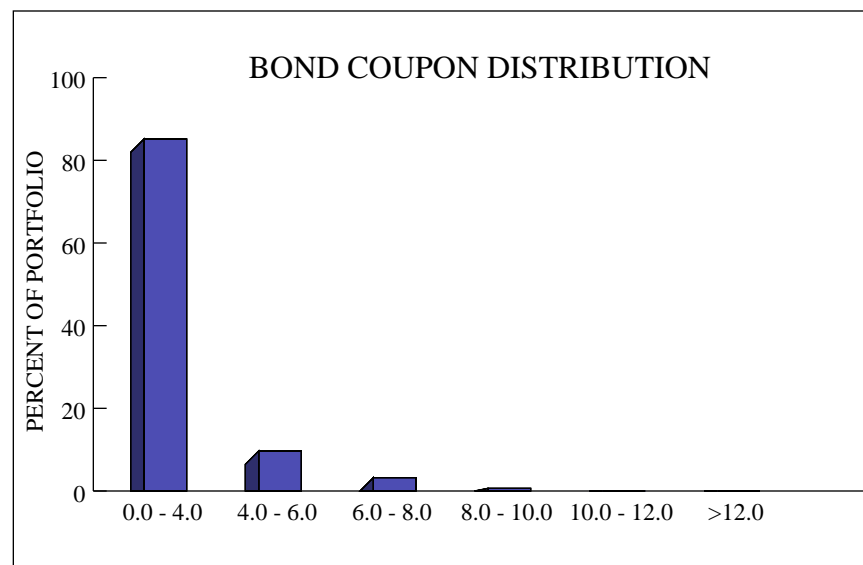
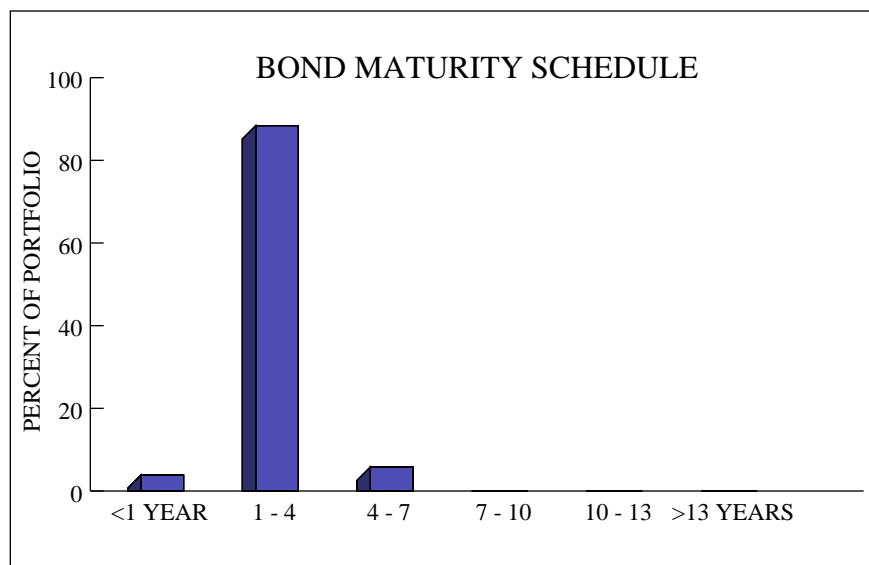
Short-Term Fixed Universe

**TOTAL PORTFOLIO QUARTERLY PERFORMANCE SUMMARY****COMPARATIVE BENCHMARK: BARCLAYS 1-3 YEAR GOV/CREDIT****VARIATION FROM BENCHMARK**

|   |             |
|---|-------------|
| <b>Total Quarters Observed</b>            | <b>13</b>   |
| <b>Quarters At or Above the Benchmark</b> | <b>12</b>   |
| <b>Quarters Below the Benchmark</b>       | <b>1</b>    |
| <b>Batting Average</b>                    | <b>.923</b> |

**RATES OF RETURN**

| Date  | Portfolio | Bench | Diff | -----Cumulative----- |       |      |
|-------|-----------|-------|------|----------------------|-------|------|
|       |           |       |      | Portfolio            | Bench | Diff |
| 12/11 | 0.8       | 0.2   | 0.6  | 0.8                  | 0.2   | 0.6  |
| 3/12  | 1.5       | 0.4   | 1.1  | 2.2                  | 0.6   | 1.6  |
| 6/12  | 0.4       | 0.2   | 0.2  | 2.6                  | 0.8   | 1.8  |
| 9/12  | 1.1       | 0.5   | 0.6  | 3.7                  | 1.4   | 2.3  |
| 12/12 | 0.3       | 0.2   | 0.1  | 4.0                  | 1.5   | 2.5  |
| 3/13  | 0.3       | 0.2   | 0.1  | 4.3                  | 1.7   | 2.6  |
| 6/13  | -0.3      | -0.1  | -0.2 | 4.0                  | 1.6   | 2.4  |
| 9/13  | 0.5       | 0.4   | 0.1  | 4.5                  | 2.0   | 2.5  |
| 12/13 | 0.3       | 0.2   | 0.1  | 4.8                  | 2.2   | 2.6  |
| 3/14  | 0.3       | 0.2   | 0.1  | 5.1                  | 2.4   | 2.7  |
| 6/14  | 0.5       | 0.3   | 0.2  | 5.7                  | 2.7   | 3.0  |
| 9/14  | 0.0       | 0.0   | 0.0  | 5.6                  | 2.8   | 2.8  |
| 12/14 | 0.2       | 0.2   | 0.0  | 5.8                  | 2.9   | 2.9  |

**BOND CHARACTERISTICS**

|                    | PORTFOLIO | BC 1-3 GC |
|--------------------|-----------|-----------|
| No. of Securities  | 72        | 1,584     |
| Duration           | 1.93      | 1.93      |
| YTM                | 0.88      | 0.89      |
| Average Coupon     | 1.84      | 2.00      |
| Avg Maturity / WAL | 2.13      | 1.98      |
| Average Quality    | AAA       | USG-AAA   |